ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JULY

Few new peaks in business activity were attained in July as plants shut down for vacation periods and the annual trek to vacation resorts went into full swing. One possible exception is tourist expenditures, which seem to be rising rapidly. In the first six months of this year 15 percent more Americans visited Europe than in the first six months of last year.

Homebuilding Boom Rolls On

Construction of new homes in the first half of this year showed no signs of slackening. Over 577,000 new nonfarm dwellings were begun during this period as compared with 566,000 during the first half of last year. Public housing starts have dropped sharply since March but an increase in private residential building has more than offset the decline.

In June alone, construction was begun on 103,000 new nonfarm housing units. This was slightly below last June's level and 4 percent less than the May figure — a seasonal decline — but represents the fourth successive month that new housing starts exceeded 100,000.

Federal Deficit at Postwar Peak

The Federal government terminated its last fiscal year, the year ending June 30, with a record peacetime deficit of $9.4 billion. This figure is considerably more than had been expected, and is largely due to overestimation of tax receipts, principally of corporation income tax payments.

A balanced budget for the current fiscal year, the goal of some Administration officials, now seems to be out of the question, and estimates of the deficit this year are in the neighborhood of $5 billion to $6 billion. The reimposition of the excess profits tax to the end of the year will be of some help in this regard, as it is expected to add $800 million in revenues. Nevertheless, an increase in the statutory debt limit from the present figure of $275 billion appeared likely, as the Federal debt rose in the middle of July to a new peak of $272.4 billion — approximately $1,700 for each man, woman, and child in the country. Tax collections during the last fiscal year amounted to $436 per capita.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

Farm Production Outlook

The total output of food and feed crops in 1953 is expected to be the third largest on record, according to estimates made by the United States Department of Agriculture. If so, this year's production would be exceeded only by that of last year and of the peak year, 1948. Nearly 360 million acres of crops were planted this year, about 4.5 million acres more than in 1952, but acreage losses this year due to various causes are expected to be higher than last year.

The 1953 wheat crop is estimated at 1.2 billion bushels, an estimate which, though below last year's figure, is large enough to necessitate Federal acreage controls on the crop. With much of last year's crop still in grain elevators, Secretary of Agriculture Benson restricted next year's crop to 62 million acres, the minimum allowed by law. This represents a reduction of one-fifth.

The estimate of this year's corn crop, 3.3 billion bushels, places it as the second highest on record and may lead to planting and marketing controls on corn for the first time in history. With production of other crops also high, feed grain supplies may be at record levels.

Exports Down

American businessmen have not been selling as much abroad this year as they did last year. The total value of United States shipments to foreign countries in the first five months of this year declined slightly as compared with the same period of last year despite a more than doubling in military aid shipments. The latter accounted for nearly a fourth of the $6.7 billion of exports, even though it excludes economic and other aid programs which are not reported separately. Deducting military aid shipments from the total indicates a drop of about 11 percent in United States nonmilitary exports.

At the same time, the value of goods imported during the January-May period rose $150 million to $4.7 billion. As a result, the merchandise balance of trade declined to $2.0 billion for this period; for the same period last year, the comparable figure was about $2.4 billion.

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The Inevitable Deficit

Reports on government finances for fiscal 1953 reveal that tax receipts of $65.2 billion were overshadowed by expenditures of $74.6 billion, leaving a deficit of $9.4 billion — the largest ever, except during World War II. Even taking into account the additional receipts paid into Social Security and other trust funds, there was a cash deficit of over $5 billion. Thus, the last year under a budget passed during the Democratic regime is hardly one to make the budget balancers happy.

How much will the picture change under the new Administration? The outlook for the fiscal year just getting under way, based on actions already taken, suggests some improvement. Beyond that year, the prospects favor increasing deficits rather than a balanced budget.

The fact is, as it has been for some time, that the budget makers are on the spot. They can't squeeze out any more revenue, and actually have to contemplate lower receipts after the turn of the year. And they can't seem to get expenditures down; or if they do succeed in this, it may be at the expense of an even greater loss in receipts.

Taxes Scheduled to Decline

The tax bite today goes deeper than ever before. Total collections in fiscal 1953, including trust fund taxes, reached a record of $69.6 billion. Individuals were hit for $37.2 billion in income and employment taxes, about 10 percent more than the preceding year. Miscellaneous taxes, mostly excises, were slightly less than $11 billion, also up 10 percent. Corporations paid $21.5 billion, about the same as a year earlier.

The only substantial action on taxes this year was the six-months' extension of the excess profits tax, which is now due to expire on January 1. Even this met strong opposition from Chairman Reed and his Ways and Means Committee. It wasn't passed without a fight — despite the fact that President Eisenhower, in asking for the extension in effect committed himself not to ask for its reenactment next term.

It can hardly be said that a stalemate between the Administration and Congress, like that which prevailed throughout Truman's term in office, has yet come into existence. That it has not may be credited to President Eisenhower's characteristic concern to keep the split in his party from breaking into open conflict.

For fiscal 1954 taxes will remain high. Personal incomes are running 7 percent above last year and the taxes due in March will be on this year's income, so that the half year's rate reduction beginning next January may be completely offset. Corporations will also be paying on this year's higher incomes, and will be making payments faster in the first half of 1954. Only after next June, that is, with the beginning of fiscal 1955, will the full effect of the tax reductions be felt. Then, even with incomes fully maintained, revenues will decline about 10 percent from the highs; and if incomes fall, the drop will be much sharper.

This has led to talk about new taxes, specifically a Federal sales tax. However, opposition to such a tax is basically stronger than to some of the taxes being dropped. It may be doubted that any new tax can be passed in an election year.

Spending Has Strong Support

Expenditures have not yet turned down. Some minor reductions will probably be made during the next year, but there is nothing in the actions taken thus far to suggest that they can be considered under control. The dominant elements in the new Administration — those responsible for national security — come together in the National Security Council. They feel that military programs cannot be cut further, and these represent the biggest part of the budget.

Moreover, there may well be some offsetting increases to any minor cuts in military spending. New proposals with substantial backing are continually being made; and expenditures under open-end programs like farm price supports will probably increase more than the economies effected in other continuing programs.

Practically the one place a real cut was made this year was in the foreign aid program. Here again, the rift between the Administration and Congress is in evidence. To the former, cutting the program seemed unwise, in view of the fact that the Russians have put aside aggressive measures in favor of a peace offensive designed to split the Western Alliance. No doubt, the lessening of tension strengthened the opposition in Congress. It also gained strength because the financial condition of the countries of Western Europe has been much improved during the last year, partly as a result of booming business in this country.

Other measures that have been adopted are also deficit increasing. The hard money policy, for example, directly increases expenditures in the form of higher interest payments; and to the extent that it is successful in curtailing private activity, tax receipts will be correspondingly reduced.

The dilemma of the budget makers lies in the fact that the more drastically they cut expenditures, the weaker the case for a balanced budget becomes. Such cuts would bring on or accelerate a decline in business activity. Then, not only would tax receipts drop, but at least some kind of program of public works or other compensatory spending would be undertaken to prevent the deepening of depression.

For all these reasons, if the budget assumes any appearance of balance in the first half of 1954, it will probably be illusory. In a situation that has no real solution, something inevitably has to give; and the pressures supporting everything else suggest that it will be the deficit. It might be possible to postpone increasing the debt limit this year, partly at the expense of drawing down cash balances in the months ahead; but though determined speeches are made whenever the subject comes up, it is an action that can hardly be avoided. VLB

PETROLEUM PRODUCTION

Although man has known of petroleum since the dawn of history he has only recently learned its value. Until the end of the nineteenth century the principal use of petroleum was to provide kerosene for burning in lamps. Today, largely because of the development of the internal combustion engine, oil and natural gas provide more than half of all the energy used for power and heat in the United States.

Petroleum also provides the lubricants without which our modern machinery could not operate efficiently. Its derivatives are important ingredients in many substances, such as roofing materials, synthetic rubber, fertilizers, medicines, insecticides, and countless other products.

Searching for Oil

The dark liquid which we take so much for granted has a long and interesting history. The crude petroleum which in its processed forms lubricates our machines, propels our cars, and provides fertilizer for our farms is believed to have been formed by the decay of microscopic plant and animal life many millions of years ago. It is thought that these minute organisms, sealed under the seas by mud deposits, slowly decomposed and formed, among other things, petroleum.

Methods of discovering oil have come a long way since the days of the oilman who depended on the "hunch," the divining rod, or Lady Luck. The progress of modern science and the constant study of geophysicists and geologists have made the discovery of oil a less haphazard undertaking than it once was. Such instruments as the gravity meter, the magnetometer and the seismograph have been pressed into the service of the petroleum industry.

With the aid of these instruments, variations in gravity, in magnetic attraction, and in earth tremors can be recorded and maps of underground rock formations drawn. Once these rock formations are known, the chances of finding oil can be estimated with some degree of accuracy.

These new methods, however, do not provide conclusive evidence regarding the whereabouts of oil. Only the actual drilling of a well can determine whether or not there is any oil. Even those wells which produce oil do not always produce it in quantities or qualities sufficiently valuable to repay the effort expended in drilling the well and operating it.

Less than one out of every nine "wildcat" wells, wells in unexplored areas, produce oil and even in known oil fields, only three out of every four wells bring up oil. This is far better than in the early days of the industry in the United States, however, when it is estimated that just one out of 20 or 25 wildcat wells ever produced oil.

Oil Production in Illinois

The first commercial production of oil in Illinois took place in 1889 soon after the discovery of oil pools in south-central Illinois. Only 1,000 barrels were produced in the first year, but as new wells were brought into operation in central and southern Illinois, oil production expanded continually until in 1940, the year of the State's peak output, almost 150 million barrels were produced. In the following years, fewer new discoveries were made and production dropped off at a rapid rate. By 1950, output was only 62 million barrels, less than half that of 1940.

In spite of this large drop in production, only six foreign countries produced more oil in 1950 than was produced in Illinois. These countries were Venezuela, the U.S.S.R., Iran, Kuwait, Saudi Arabia, and Mexico.

Petroleum Reserves

Both the length and the magnitude of the decline in the State's petroleum output might lead one to expect the virtual disappearance of the industry from Illinois. There are several indications, however, that the State will continue to play a significant part in the petroleum industry for some time to come.

The first of these is the gradual increase in proven oil reserves within the State. At the end of 1945, proven oil reserves stood at a level of 350 million barrels. At the end of 1950, this figure had risen to 560 million barrels. The increase alone represents about four years' production and the total proven reserve represents 9 or 10 years' output at the present rate.

The second, and perhaps more important consideration, is the effect of the use of secondary recovery techniques on the State's oil production. The most commonly used method in the Illinois fields is water flooding, whereby pressure within the well is rebuilt by pumping water into the well at the proper point. The use of such secondary recovery techniques lengthens the active life of most wells and allows the pumping of much petroleum which would have been allowed to remain in the ground a few years ago.

However, a water flooding operation may take from six months to as much as three years to complete. For this reason the many secondary recovery operations which have been started in the Illinois fields in recent years are contributing only slightly more than 10 percent of present production. Some experts feel that when such programs are put into widespread use they should give us steady production at about present levels for the next fifty years.

In addition, oilmen are conscious of the fact that the deepest well in the State has not gone below 8,000 feet. It is possible that with modern equipment capable of drilling four miles into the earth, untapped reservoirs of petroleum may be found at previously unexplored levels. Oil pools at from two to a dozen different levels are not uncommon and at the Seligson field in southwest Texas, 42 separate oil-producing horizons have been found. This, of course, remains only a possibility until the first deeper producing well has been drilled in Illinois.

RECENT ECONOMIC CHANGES

Aluminum Production at Record

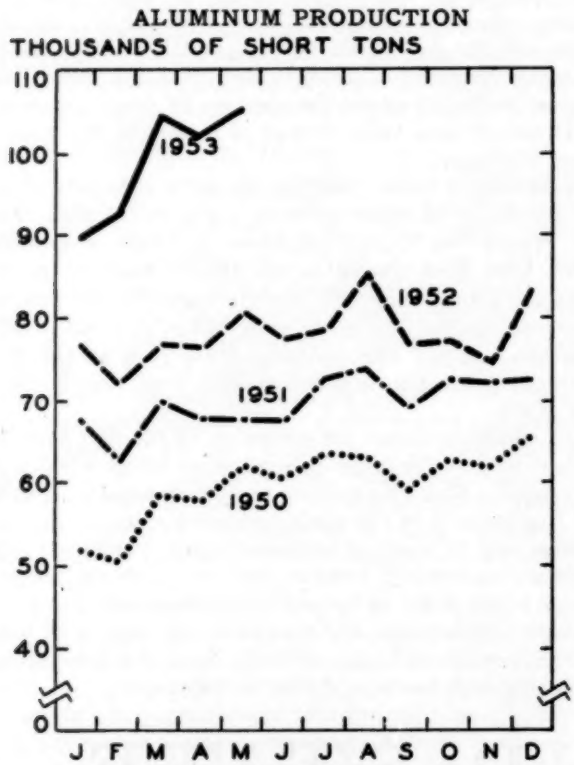
Primary aluminum production in May advanced 3,500 tons to a record 105,400 tons, about 1,000 tons above the previous high reached in March. Production in the first five months of 1953 amounted to almost 500,000 tons. As shown by the accompanying chart, this was substantially (nearly 30 percent) above output in the corresponding period of 1952. Output for the year as a whole is likely to be considerably in excess of last year's record of 940,000 tons of primary aluminum.

This rapid increase in output has been made possible by the great expansion of the industry's productive facilities since the outbreak of hostilities in Korea in June, 1950. By the end of last year, primary capacity had risen from 700,000 tons to 1.2 million tons, an increase of 70 percent. Construction projects now underway are expected to raise the capacity level another 500,000 tons to 1.7 million tons.

Dividend Payments Rise

Dividend payments by corporations issuing public reports amounted to $1.25 billion in June, 6 percent above June, 1952. Manufacturing firms paid stockholders 5 percent more this June than last, but the increase was primarily the result of a shift in payment dates, as a number of large manufacturing companies that paid dividends in May last year paid them in June this year. Nonmanufacturing industries' dividends were 7 percent over June a year ago.

Dividend disbursements in June raised the total paid out in the first half of the year to $4 billion, an increase of 4 percent over the same 1952 period. Manufacturers' dividends were up 1.5 percent, with the largest advances concentrated in the oil refining and machinery industries. Transportation equipment companies increased their dividends in the first half by 10 percent, and, except for a drop in disbursements by textile firms which reflected reduced rates and dividend omissions, other manufacturing industries either maintained first half 1952 disbursements or raised them moderately. Nonmanufacturing payments were 8 percent above the first six months of last year, as finance companies, railroads, and public utilities reported substantial increases over last year. Mining payments were down slightly, whereas other nonmanufacturing industries' payments were unchanged from last year.



Source: U. S. Department of Commerce.

Latin American Investment

Since the end of World War II, United States long-term investment in Latin America has risen at a rate of about 8 percent a year. By the end of 1952, the total outstanding amounted to $6.5 billion, almost a fifth of all United States investment abroad. Although loans by the Export-Import Bank and the International Bank for Reconstruction and Development and other indirect investment have been important in financing development of basic facilities in Latin America, well over three-fourths of the postwar increase has come directly from private firms in the United States and their Latin American subsidiaries. These funds were used mainly to expand petroleum and manufacturing industries.

More than half of postwar additions to investment in Latin America were concentrated in three of the twenty-one Latin American republics, Venezuela, Brazil, and Mexico. The absence of adequate power, transportation, and communication facilities; the adverse effects of inflation; and strong nationalistic tendencies in some of the other countries provide restraining influences on United States investment.

Individuals' Liquid Saving

Individuals added $2.5 billion to their liquid savings during the first quarter of 1953. This was slightly above saving in the first three months of 1952, and was the highest for any first quarter in the postwar period. Following the usual pattern, liquid saving was substantially below saving in the last quarter of 1952, primarily reflecting payment of income taxes.

The composition of saving in the first quarter differed only slightly from that of the same period last year. Currency and bank deposits declined $1.5 billion, slightly less than the seasonal drop that occurred in the first quarter a year ago; individuals' saving in insurance, including private life insurance and Government pension reserves, amounted to $2.2 billion in the first quarter compared with $2.4 billion last year; and investment in shares of savings and loan associations amounted to over $900 million, almost as high as the record $1.0 billion of the preceding quarter, and $200 million above the first quarter of 1952.

The largest increase between the two first quarters was in investment in securities (mainly United States government bonds) which amounted to $2.5 billion, greater than at any time since the first quarter of 1947. Partially offsetting this rise, individuals increased their mortgage indebtedness somewhat more than in the first quarter of last year and, contrary to the usual first quarter experience, expanded their installment indebtedness.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

School Enrollment

Over 45 percent of the population aged 5 to 34 was enrolled in school or college at the beginning of the 1952-53 school year, according to a Census Bureau release. In the largest compulsory school age group — children 7 to 13 years old — about 99 percent were registered whereas only 85 percent of persons 14 to 17 years and only a little more than a third of those 18 and 19 years old had enrolled. The rates for succeeding age groups declined sharply. The number of boys and girls in elementary and high school was about equal, but almost twice as many men as women were attending college.

School enrollment in October of 1952 (about 32 million) was 1.4 million larger than for the same month of the preceding year. Most of the increase was due to a larger number of children in elementary schools.

Plastic Slide Fastener

An all-plastic slide fastener that makes an airtight waterproof seal and won't snag has been designed for use with plastic film or sheeting. It operates without teeth on a simple principle in which two parallel grooves run the length of each fastener and hook together in a continuous strip. A plastic slide opens and closes the fastener, or it can be closed by pressing the grooves together. The fastener, called Flexigrip, was invented in Denmark and is manufactured in the United States by Flexigrip, Inc. of New York.

Research in Business

The place of commercial research in business depends upon the cooperation of management. Executives who recognize the need for facts on which to base their decisions and a sales management which is willing to accept facts are two necessary prerequisites of successful business research, according to an article by J. T. Miller entitled "The Place of Research in Business" published in the June issue of *The Controller*. Research, as defined by the author, is choosing the essential information from a mass of data acquired through experience and study, and applying it constructively to the solution of problems encountered in the operation and plans of a company.

Some functions of research discussed include the measurement of market potentials and the setting up of sales quotas, discovery of consumer desires, an analysis of competition, and forecasts of business trends. Research is not infallible, and the author points out some common pitfalls, such as neglecting to interpret fully all the facts and figures and working on insignificant problems.

Gardeners' Aid

A gadget which, when attached to a garden hose or sprinkler, can be set to turn the water off automatically after any length of time has been marketed by Flo-Matic Valve Company, St. Paul, Minnesota. Measuring 6 inches long, 2¾ inches wide, and 2¼ inches high, the new device couples to any standard threaded faucet, then fastens to a garden hose. Useful for lawns, golf courses, greenhouses, and small irrigation systems as well as for filling tanks and vats, the gadget will also control the flow of other light liquids. It retails for $7.95.

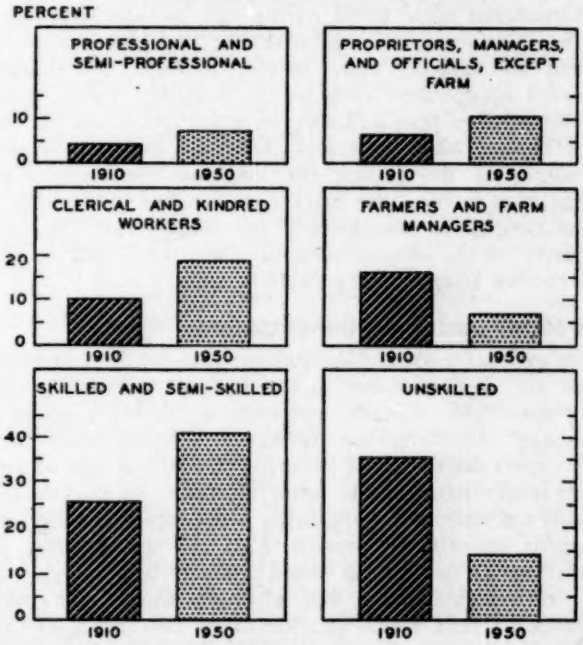
Composition of the Labor Force

During the last 40 years unskilled workers in the United States declined from 36 percent of the labor force to less than 15 percent according to the Bureau of the Census. The chart below, which compares the occupational distribution of workers in 1910 and in 1950, shows that the proportion of professional and semiprofessional persons increased from one out of every 25 workers in 1910 to one out of every 14 workers in 1950. During the same period, the proportion of proprietors, managers, and officials (except farm) also increased, from 6.5 percent of the labor force to 10.4 percent.

The second Yearbook of the Department of Labor (entitled *The Workers' Story — 1913-1953,* available through the Superintendent of Documents, Washington, D. C.) states that changes in the occupational distribution of workers during the last 40 years are due to immigration restrictions, to the shift from country to urban living, to an increasing proportion of older workers and a declining proportion of younger workers in the labor force, and to a larger number of employed women.

Greater educational opportunities have also played a dominant role in occupational distribution changes, but perhaps the most important factor influencing the composition of the labor force is the improvement in productivity. The use of machinery has enabled today's worker to be from 2 to 3 times more productive than his counterpart of 1910. Consequently the need for common laborers, including farm workers, has diminished. Farm mechanization, which introduced a trend toward fewer but larger farms, brought about a decline in the proportion of persons working as farmers and farm managers — from 16.5 percent of the labor force in 1910 to only 7.0 percent in 1950.

OCCUPATIONAL DISTRIBUTION OF THE LABOR FORCE, 1910 AND 1950



Source: Bureau of the Census.

PENSIONS AND PROFITS

A. STUART HALL, Assistant Professor of Economics

Overshadowed by the more spectacular concomitants of the Cold War, labor's drive for security through industrial pensions may in retrospect appear to have been one of the most important phenomena of the postwar period in shaping the economic life of America in years to come. In comparison with the barrels of ink and hundreds of radio hours devoted to disquisitions on fiscal and monetary policies, little attention has been given to the probable impact of industrial pensions. The paragraphs which follow contain a few facts about pensions, to be sure, but they are essentially speculative in nature and are meant to be provocative rather than factual.

For many years, workers in various industries — notably, transportation and the public utilities — have enjoyed some form of pension benefit. The great growth of the industrial pension movement, however, dates from 1949, only four years ago. In 1948, only 1.6 million workers were covered by such plans. By 1950, the figure had risen to 4.2 million, an increase of 160 percent. By the end of 1952, over 10 million workers were covered. There were about 14,000 agreements as compared with 7,000 in 1945. If government employees are included, not less than 16 million persons — one-fourth of the total labor force — would be regarded as beneficiaries of some sort of retirement plan other than Social Security.

There is nothing mysterious about this immense growth. There were two immediate causes. Both of these afford interesting fields for philosophizing on the proper role of the Federal government in economic life, but space forbids such a digression. The first event was the court decision in *NLRB* v. *Inland Steel* (170 F.2nd 247, September, 1948) which upheld the government's demand that the employer bargain collectively and in good faith on the issue of industrial pensions. The second event which gave impetus to the pension drive occurred in September, 1949, when the Steel Industry Fact-Finding Board asserted that the cost of worker pensions is properly a charge on the cost of production.

Organized labor could hardly fail to take advantage of the opportunity thus afforded it; and there is every reason to suppose that, except, perhaps, for highly seasonal occupations such as the building trades, some sort of pension plan will soon be a feature of all but the most modest labor contracts. Then, if the past is any harbinger of the future, the long-run phenomenon of competition in the labor market will ensure that within a generation, given substantially full employment, the vast majority of the nonagricultural labor force will expect and receive roughly comparable benefits.

The Plans and Their Beneficiaries

In general, collective-bargaining pension or retirement plans are supplementary to the Federal Social Security program. Plans typically undertake to assure workers a "package" affording the difference between what they may expect under Social Security (OASI) at age 65 and some larger figure. This latter figure is, of course, the nub of the collective bargaining procedure regarding retirement benefits. At present, $125 per month after 30 years' service to the firm would probably be a representative retirement benefit for a single worker. In most instances, OASI would provide about two-thirds of this amount, the remainder coming from the private employer.

The costs of these plans may, as usual, be regarded from more than one viewpoint. To begin with, it is evident that in a civilized society the cost of providing some sort of support for retired workers is inescapable. The problem of costs therefore reduces to this: Who shall stand this inescapable expense, and how much should it be? The social aspects of the question will be briefly noted later; at present, let it suffice to say that the costs to employers of these supplementary industrial retirement plans typically run to about 5 or 6 percent of payrolls. (It is, of course, obvious that when a plan "qualifies" — most do — under section 165 (a) of the Internal Revenue Code, the resulting tax exemption reduces the cost of a dollar contribution to about 48 cents, perhaps even less if the firm is conspicuously profitable.)

But the true cost to society of this new quest for economic security is necessarily contingent on the composition of the American population. In 1950, there were 11.6 million persons who were 65 years of age or older. A projection of the present population trend to 1960 indicates that by that time this category will include 15 or 16 million persons, or about 9 percent of the population. It has been estimated that if all persons now 65 or more were retired, it would require about 5 percent of the present national income to support them at a very modest level, scarcely better than subsistence.

Yet more persons are attaining 65 than ever before. In addition, they are living longer after reaching that age. Thus the aggregate of what may be called "retired-person-years" is increasing in two ways. Obviously, the years of man are finite; but there is abundant evidence that a curve portraying survivors at ages 70, 75, 80, . . . holds above zero in a way that would have been incredible forty years ago. An aphorism of the actuarial profession has it that annuitants never die — they slowly fade away. It may be that if longevity is enhanced by the industrial-pension drive, young men in medical school may strive to become gerontologists rather than specialists in the gastric ulcer!

Be that as it may, it is clear that the social burden of industrial pensions will increase absolutely. Whether this burden will increase or decrease relatively depends on other things, some of which will now be considered.

Costs and Profits

Ultimately, all profits derive from the production and sale of goods and services. Profits are therefore, among other things, a function of effective demand (purchasing power) and productive efficiency and capacity. Productive capacity, in turn, is closely related to the availability of "capital goods." Pensions not only increase costs, they modify all these other aspects of the profits picture.

At first glance it would seem that any pension scheme is merely a transfer of purchasing power through time, where the worker foregoes spending this year so that he may spend in 19*xx*. But this could not possibly be the case unless the present abstention were to take the form of hoarding; and pension funds are not hoarded. They are invariably invested, either directly (20 percent of the stock of a leading mail-order house is owned by its employee pension fund) or through the intermediary of insurance companies and other custodians. This financial investment facilitates *real* investment, which in turn gen-

erates employment and, thereby, contemporary incomes. The immediate effect of a pension plan is therefore dynamic; it rearranges, to some extent, the pattern of expenditures.

Already pension funds aggregate about $11 billion, and this year accretions to these funds will amount to about $1.8 billion, a sum which would have purchased 30 percent of all new corporate security issues offered in 1950. Thus, unless the growth of pension funds somehow inhibits or diminishes "free" or private saving, a corollary of this growth appears to be a tendency for interest rates to decline somewhat. Hence firms with a large investment of borrowed capital may experience some gradual offsetting of the additional expenses of a pension plan.

Even more important in reducing business costs may be other aspects of the pension movement. While it is apparent that *total* costs must increase by the addition of retirement plan contributions, it does not necessarily follow that *unit* costs will increase. There is, in fact, a strong possibility that in many organizations these might decline somewhat. When workers are aware of having a stake in an enterprise and in its continued success, the presumption must be that they will work more energetically and productively.

Furthermore, the staggering costs of high labor turnover may greatly diminish. Since retirement benefits have not usually been "vested," the worker who leaves a job after several years may sacrifice an appreciable part of his whole-life income. To some extent also, pensions will hasten the retirement of workers whose efficiency has, because of age, declined. Workers in this category are often kept on, partly from humanitarian motives and partly because of seniority. Thus in many instances retirement plans may prove a boon if they merely avoid what tends to be hidden in a rigid seniority system — namely, *de facto* pensions now paid under the guise of wages and salaries. The participating firm is twice blessed if it retires the relatively inefficient and thereby fosters ambition among younger workers. For all these reasons, the increase in total costs is likely to be less than the cost of the pension plan.

Market Expansion

The favorable impact of a strong and steady demand on unit overhead costs is, of course, well known. "Capacity operation," as usually understood, means lowest unit overhead costs. Now the purchasing power of the older segment of the population will be considerably increased by the widespread adoption of industrial retirement plans, for that is their purpose. This means increased demand, because the marginal propensity to consume is much greater among low-income receivers than among more affluent persons. This is likely to be especially true where low-income receivers are also retired persons with ample leisure. Thus the presence in the market of a large number of pensioners should have a stabilizing effect on the demand for a great many types of goods and services.

It should not be inferred that more wheelchairs and fewer hot-rods will be produced; spending is always followed by re-spending by others, and so on, ad infinitum. Hence, because of the fascinating interdependence of economic phenomena, the existence of a powerful and continuous demand for any class of goods and services — amenities or atomic missiles — eventually reacts favorably on millions of apparently unrelated producers.

But any bugaboo fears that the industrial pension drive presages prolonged inflation seem groundless, on the assumption that the secular rate of growth in America's productive capacity — about 3 percent per year, on the average — continues; and there is no reason to suppose that the pension movement per se will inhibit this growth. As an approximation, compounding the 1952 national income at 3 percent suggests a 1960 income about 27 percent larger. This gain would compare favorably with the projected rate of gain for the same period in the numerical strength of the 65-and-over age group. If the philosophy of industrial pensions envisaged providing an income sufficient to command a yacht and an air-conditioned penthouse for every retired worker, a gigantic and painful reallocation of resources might develop. Obviously, no such luxury is contemplated.

Tentative Conclusions

In any case the problem of supporting the worker over 65 cannot be avoided; and, as noted above, the supposed additional costs to society may be more apparent than real, once they are regarded as additional *net* costs rather than absolute amounts. But the net additional costs of a semi-universal worker retirement system are likely to bear unequally on different firms, exaggerating a characteristic already present in our economic system — that which dictates that some firms make profits and some do not.

The probable impact of a widespread industrial pension system seems to depend on whether costs increase by an amount equal to, more than, or less than the gain in total revenues. Since the cost of a pension plan tends to vary directly with the size of a working staff, highly mechanized firms are likely to receive benefits resulting from the enhanced demand generated by a widespread pension system without incurring proportionately increased costs. On the other hand, firms whose ratio of direct labor costs to total costs is very high may experience an absolute diminution of total profits. Smaller firms with relatively high labor costs are likely to be handicapped by the rise of the pension system, as are new firms with an uncertain future; these will find it harder to become viable. Even if firms of this description refuse to concede a retirement system to workers, they will, unless situated in a remote location, experience an adverse selection with respect to applicants for jobs; no one, given an alternative, will elect to work for a nonpension firm if he can secure more attractive employment elsewhere.

In general, therefore, it would seem that larger, more mechanized, more diversified firms loom up as chief beneficiaries of the change in income distribution implicit in the philosophy of industrial pensions. The additional costs of the system will tend to place a premium on top-flight managerial ability; and it may even foster greater responsibility among politicians and voters, because both for business and government this ambitious attempt to provide security (and, as a corollary, to assure some stability in the purchasing power of annuities) will be a challenge of the first order. The present writer's guess is that this challenge will be met best, in the long run, by the continued evolution of large and even monolithic firms — industrial "empires." The less efficient, less mechanized firms will find the road rocky indeed.

In recent years many have commented — some, fearfully — on the trend toward corporate concentration and the supposed decline of the small entrepreneur. The rise of the pension system may well accentuate this trend; but it did not originate it. The movement is merely one manifestation of a silent decision which seems to have been made already by Americans, who in the past generation have given economic security priority over untrammeled freedom of opportunity.

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INDEXES OF BUSINESS ACTIVITY

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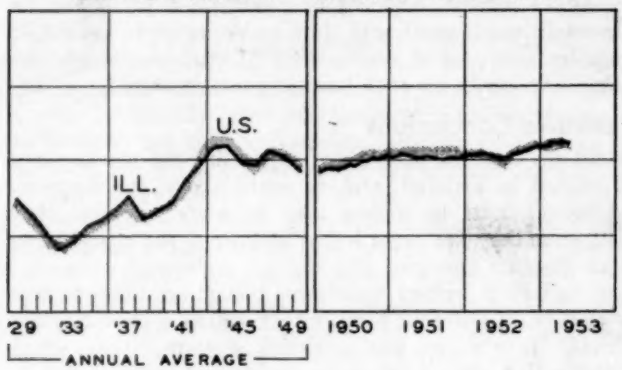

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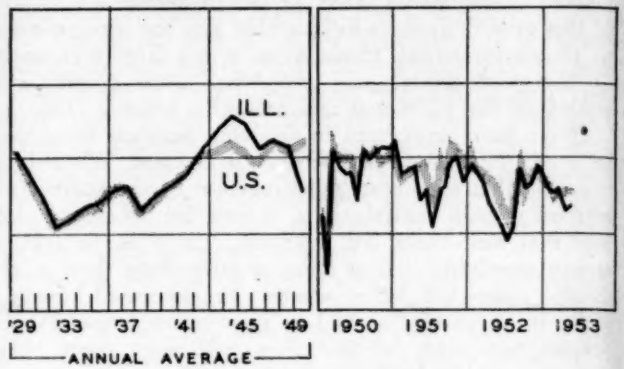

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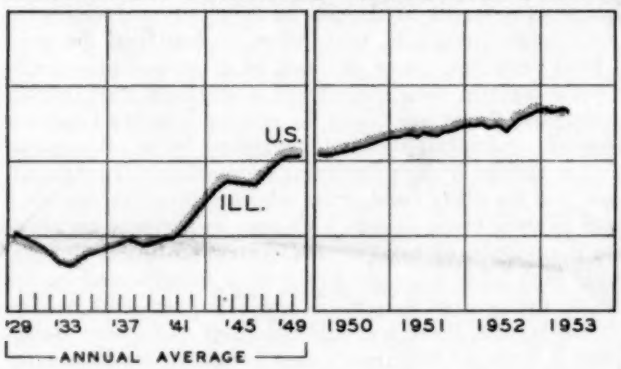

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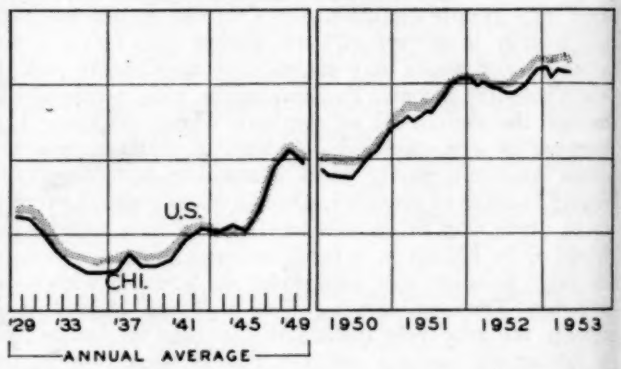

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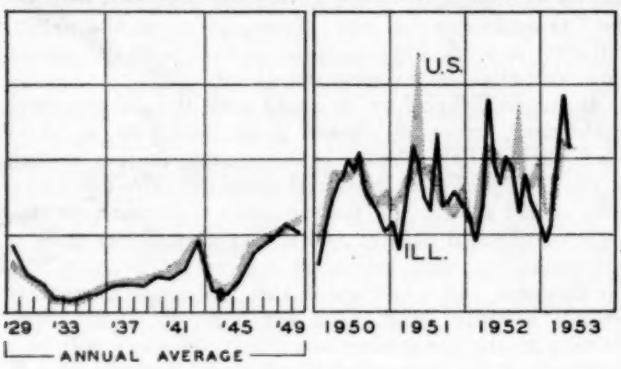

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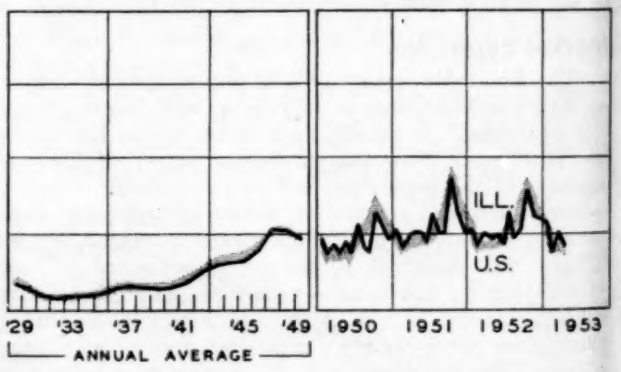

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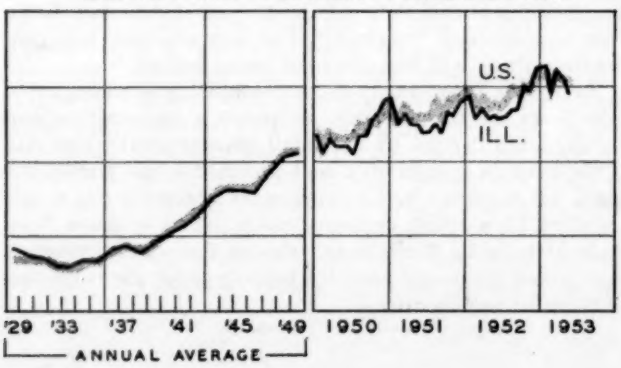
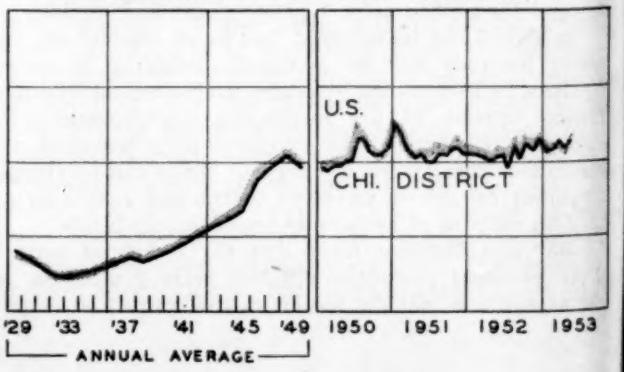
DEPARTMENT STORE SALES